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P 061709Z MAR 07 ZDK  
FM AMEMBASSY ABUJA  
TO RUEHC/SECSTATE WASHDC PRIORITY 8783  
INFO RUEHOS/AMCONSUL LAGOS PRIORITY 6265  
RUEHWR/AMEMBASSY WARSAW 0142  
RUEHCD/AMCONSUL CIUDAD JUAREZ 0140  
RUEHZK/ECOWAS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS ABUJA 000426

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DEPARTMENT PASS TO USTR FOR LAGAMA  
TREASURY FOR LUKAS KOHLER/DAN PETERS  
USDOC FOR 3317/ITA/OA/KBURRESS  
USDOC FOR 3130/USFC/OIO/ANESA/DHARRIS

E.O. 12958: N/A

TAGS: EFIN ETRD ECON PINR NI

SUBJECT: THE THIRD IMF REVIEW OF NIGERIA'S PSI

Ref: A. 2006 Abuja 519

1B. 2006 Abuja 2397

11. Summary. On March 3, 2007, the IMF held a briefing of the 3rd review of the Policy Support Instrument (PSI). Michael Bell, IMF Senior Resident Representative, stated that the report is still a work-in-progress and that discussions with the GON are at an interim stage, but the IMF has seen good economic performance. Inflation is in the single digits and macro economic targets have been met. The GON is still committed to reforms but key legislation needs to be passed by the National Assembly (NA) on tax reform, procurement, and fiscal transparency. The GON also needs to look at how the Excess Crude Account (ECA) is used and develop a debt management strategy.  
End Summary.

12. Econoffs attended an IMF briefing on the 3rd review of the Policy Support Instrument on March 3, 2007. Michael Bell, IMF Senior Resident Representative, painted a rosy picture of the state of the Nigerian economy. He said the report was still a work in progress and discussions were at an interim stage.

13. The report assessed Nigerian economic performance as good in the non-oil sector; however the oil sector has been negatively affected by unrest in the Niger Delta. Headline inflation had decreased to 8%, with lower food prices the major driver in keeping inflation in the single digits, however core inflation is running 12%-13%.

14. Regarding the budget, the federal government account was on target; however the consolidated accounts that include the federal, state and local government had overruns, partly attributed to higher state expenditures driven by higher than expected gas revenues, and by fuel subsidies. The 2007 budget was passed before the new year began for the first time, which would improve budget implementation, but which could increase pressure for deficit spending, especially from the capital account.

Monetary Policy Implementation

16. The Central Bank of Nigeria (CBN) had installed a new IT platform that was still working out bugs, resulting in a delay in gathering some data the IMF team needed to complete the review. The implementation of the CBN monetary policy needed to be strengthened to be more sensitive to economic developments.

Sustaining Structural Reform

17. The GON was still committed to structural reforms; however,

progress on some of the benchmarks had been delayed. For example, introductions of the Civil Service's personnel payroll system, and the Federal Inland Revenue Service's (FIRS) taxpayer identification system were behind schedule. IMF has stressed the need to institutionalize the reforms by the passage of key legislation on tax reform, banking and fiscal transparency. With the elections a few months away what bills would pass was still in question.

Anchoring Future Policy

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18. Areas that would need attention in the future were:

- Due to gas revenues rising, the GON should institute a similar fiscal rule or reference price for gas as for oil.
- A framework on regulating how funds in the ECA should be accessed, for what purposes, and how accounted for. The Mission held a workshop to brainstorm initial ideas on the issue.
- Nigeria has cleared most of its debt with the Paris and London Club and has a very low debt level. This means that there are intense pressures to increase new borrowing. To manage those pressures, the IMF recommended the development of a good debt management framework for both external and domestic debt.

CAMPBELL